

**Department of Commerce – Credit Union Division**

# **PERFORMANCE REPORT**

**Performance Results Achieved for Fiscal Year 2015**

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# INTRODUCTION

## *Purpose and Scope*

This performance report is provided pursuant to Iowa Code §8E.210, which requires each agency to prepare an annual performance report stating the agency's progress in meeting performance targets and achieving its goals consistent with the enterprise strategic plan, its agency strategic plan, and its annual performance plan. The annual performance report shall also include a description of how the agency has reallocated human and material resources in the previous fiscal year. This reporting is used to improve performance, improve strategic planning and policy decision making, better allocate human and material resource, recognize superior performance, and inform Iowans about their return from investment of government.

This report contains information pertaining to six agency goals and measures.

## *Executive Summary*

Performance remained stable in all goals and measures. Iowa's 104 credit unions are operating in a safe and sound manner, and are increasing in overall asset size and membership, even while the total number of credit unions has declined due to mergers. The Division performed 99 examinations during the year. Credit unions at risk are closely monitored. Letters of Understanding and Agreement (LUA) are put in place between the credit union and the Division to correct problems identified before a merger becomes necessary.

The Division received a steady number of consumer complaints, with the majority of complaints were resolved within a 30-day time frame. The remainder of the complaints was resolved within the 60-day target for resolution.

The Division has worked to improve communication and accessibility to information, working with the Iowa Credit Union League to disseminate information regarding new administrative rules and legislation.

# AGENCY OVERVIEW

## *Mission and Vision of the Credit Union Division*

The primary purpose and mission of the Credit Union Division is the administration and execution of the laws of the State of Iowa relating to credit unions so as to protect effectively the interests of the depositors and shareholders of those organizations. Our guiding principles are customer focus, results orientation, long-range thinking, data-based decisions, continuous improvement, collaborative leadership, and employee participation.

Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members. We safeguard the interests of credit union depositors and shareholders through the effective administration and execution of the laws relating to state-chartered credit unions.

## *Organizational structure*

The Superintendent of Credit Unions is appointed by and serves at the pleasure of the Governor, subject to confirmation by the Iowa Senate. The Superintendent is charged with the supervision of state-chartered credit unions, and control and enforcement of the laws, bylaws, rules and regulations pertaining to the organization and operation of credit unions operating under a state charter.

The Credit Union Review Board meets quarterly pursuant to Iowa Code §533.107. It consists of 7 members, 5 of whom shall have been a credit union member for at least the previous 5 years. The members are appointed by the Governor and confirmed by the Senate, and serve staggered terms of 3 years. The review board may adopt administrative rules or take other action as it deems necessary or suitable to administer the Iowa Credit Union Act.

Employees of the Credit Union Division are noncontract, non-merit employees, pursuant to Iowa Code §20.4. 9 Credit Union Examiners and 1 Credit Union Examiner Supervisor work in the field and are responsible for providing credit union examinations throughout the state. Senior examiners are assigned supervision of the larger and more complex credit unions. The Des Moines office consists of the Superintendent, an Executive Officer and Legal Counsel, an Information Technology Specialist, and a Secretary.

## *Core Functions/SPAs*

The Division's core functions are regulation and compliance, and resource management.

Regulation and compliance services include a risk-focused supervision and examination program which identifies, measures, monitors, and controls unacceptable levels of risk. The Division utilizes a red flag system, subject matter specialists, and specialized training to manage appropriately the risk in credit union operations.

Iowa Code §533.113(1)(a) provides that examinations will be made whenever necessary or advisable, but in no event less frequently than once during each twenty-four month period. Most credit unions are examined within a 12 to 14 month cycle. We also aim to identify, measure, monitor, and control unacceptable levels of risk through our risk-focused supervision and examination program, in order to assure that all credit unions are operating in a safe and sound manner.

Resource management aims to improve communication and accessibility to information with a desired outcome of enhanced external and internal communication in the areas of administration and legislation. This unit is responsible for the accounting, budgeting, human resources, rules and regulation, planning, consumer complaint response, and information technology functions. The Division provides timely and accurate services to division employees, credit union management and members, and other state agencies. Our performance target is to resolve the majority of consumer complaints within 60 days of receipt.

### ***Budget***

The Division's funding is administered by the Administration and Regulation Appropriations Subcommittee, which annually approves the Division's spending authority from the Department of Commerce Revolving Fund, pursuant to Iowa Code §546.12. The actual expenses of operating the Division are paid by state-chartered credit unions through fees, assessed according to categories of institutional asset size, that are paid in two installments in August and December of each year. The Credit Union Division receives no funding from the state general fund.

The Division's spending authority for FY 2015 was set at \$1,794,256. Actual expenditures for FY 2015 were \$1,635,992.

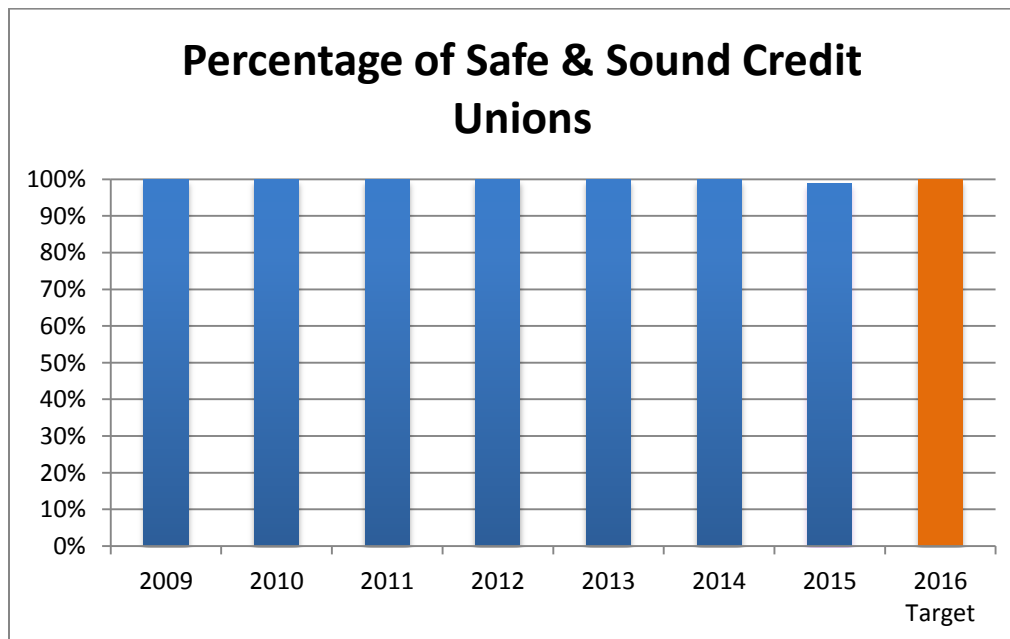
## Key Result

### CORE FUNCTION

**Name:** Regulation and Compliance

**Description:** Percentage of state-chartered credit unions operated in a safe and sound manner and in compliance with applicable laws and regulations. Credit unions within the State of Iowa continue to operate in a safe and sound manner.

**Why we are doing this:** The Superintendent of Credit Unions is given the authority to regulate state-chartered credit unions under Iowa Code Chapter 533. The Superintendent is authorized to institute various administrative actions under the Code for the protection of Iowa credit union members in the event any credit union is operating in an unsafe or unsound manner.



**Performance Measure:** Safe and sound credit unions in Iowa

**Performance Target:** 100% of Iowa credit unions.

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**What we're doing to achieve results:** The Division works to identify, measure, monitor, and control unacceptable levels of risk through a risk-focused supervision and examination program which works to manage the risk presented by credit union operations. Administrative action by the Division is instituted as needed, including additional supervisory contact with a credit union,

Documents of Resolution, Letters of Understanding and Agreement, Cease and Desist Orders, and, in rare instances, management of a credit union and dissolution.

**What was achieved:** Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members. By providing a safe and sound regulatory environment, we safeguard the interests of credit union depositors and shareholders. At the end of FY 2015, there were 104 credit unions in the state.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including supervision and examination of state credit unions, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

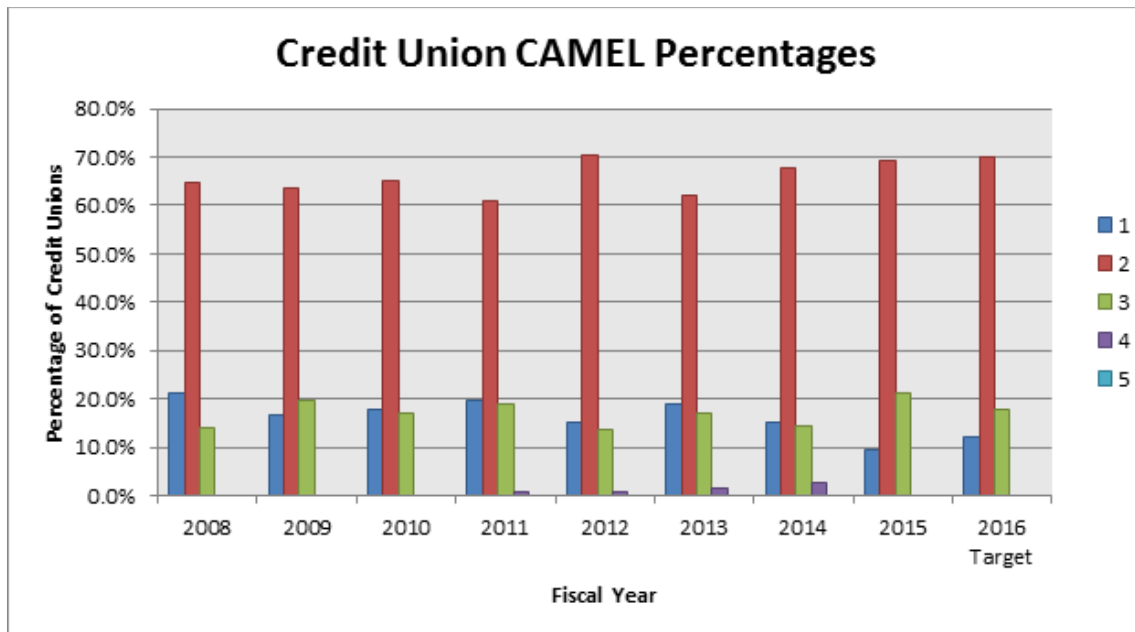
## Key Result

### SERVICES/PRODUCTS/ACTIVITIES

**Name:** Examinations

**Description:** State-chartered credit unions are all operated in a safe and sound manner and in compliance with applicable laws and regulations. Credit unions within the State of Iowa continue to operate in a safe and sound manner.

**Why we are doing this:** Composite CAMEL ratings are based on examinations, including a careful evaluation of an institution's managerial, operational, financial, and compliance performance. The six key components used to assess an institution's financial condition and operations are: capital adequacy, asset quality, management capability, earnings quantity and quality, the adequacy of liquidity, and sensitivity to market risk. The rating scale ranges from 1 to 5, with a rating of 1 indicating: the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile; and the level of least supervisory concern. A 5 rating indicates: the most critically deficient level of performance; inadequate risk management practices relative to the institution's size, complexity, and risk profile; and the greatest supervisory concern. The composite ratings are defined on the next page.



**Performance Measure:** Safe and sound credit unions in Iowa – CAMEL ratings

**Performance Target:** 100% of Iowa credit unions.



## **CAMEL Ratings**

Composite 1 Rating - indicates strong performance and risk management practices, and any weaknesses are minor and can be handled in a routine manner. These credit unions give no cause for supervisory concern.

Composite 2 Rating - reflects satisfactory performance and risk management practices, areas of weakness may be present but are considered minor and if left unchecked could develop into greater concern. These credit unions have minor supervisory contact.

Composite 3 Rating - represents performance that is flawed to some degree and risk management practices may be less than satisfactory, credit unions require more than usual supervisory attention to address deficiencies.

Composite 4 Rating - refers to poor performance of serious supervisory concern that, if left unchecked, would be expected to lead to conditions that could threaten the viability of the credit union, and weaknesses and problems are not being satisfactorily resolved.

Composite 5 Rating - considered unsatisfactory performance that is critically deficient and in need of immediate remedial attention, weaknesses and severity of problems are beyond management's ability or willingness to control or correct, and these conditions directly threaten the viability of the credit union. These credit unions have a high probability of failure, are under continuous supervisory scrutiny and involvement, and will likely require emergency assistance, liquidation, merger or acquisition.

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**What we're doing to achieve results:** The Division works to identify, measure, monitor, and control unacceptable levels of risk through a risk-focused supervision and examination program. Administrative action by the Division as needed, including Documents of Resolution, Letters of Understanding and Agreement, Cease and Desist Orders, and additional supervisory contact with a credit union, works to manage the risk presented by credit union operations.

**What was achieved:** Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members. By providing a safe and sound regulatory environment, we safeguard the interests of credit union depositors and shareholders. As of the end of FY 2015, there were 109 credit unions in the state, none of which had a CAMEL rating of 5.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including supervision and examination of state-chartered credit unions, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

## Key Result

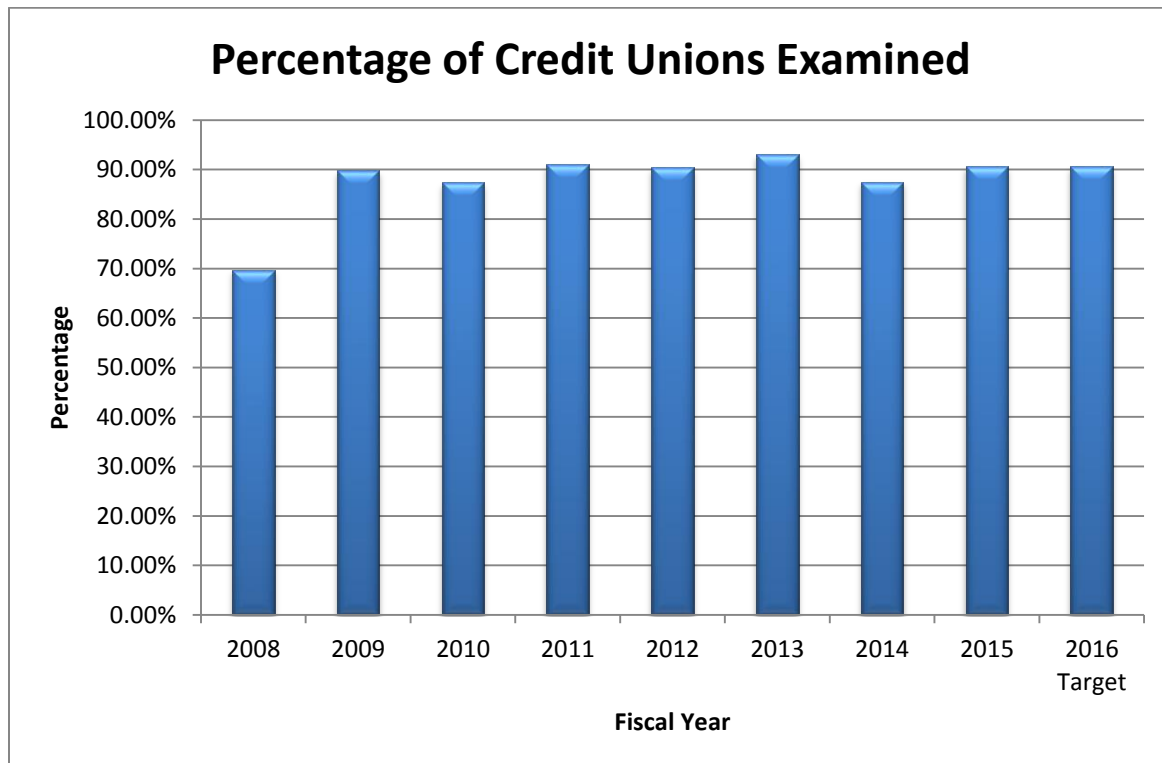
### SERVICES/ PRODUCTS/ACTIVITIES

**Name:** Examinations

**Description:** Iowa Code §533.113(1)(a) requires that examinations of credit unions be made whenever necessary, but in no event less frequently than once in each twenty-four-month period.

**Why we are doing this:** As part of our strategic goal to identify, measure, monitor, and control unacceptable levels of risk in Iowa credit unions, frequent examination and supervisory contact is necessary.

**What we're doing to achieve results:** The Division strives for regular contact and examination in all Iowa credit unions. As some credit unions have grown in size of assets and complexity of operations, additional examiner presence and time is needed in some credit union exams. An additional examiner was added this year to allow us to reach more credit unions. Most credit unions are examined on a 12 – 14 month cycle.



**Performance Measure:** Percent of Iowa credit unions examined annually

**Performance Target:** 90%

**What was achieved:** By making frequent contact with credit unions through examinations and related supervisory contact, potential problems can be caught earlier, when remedial efforts are more effective for the health of the credit union and the protection of credit union members.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including examination, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

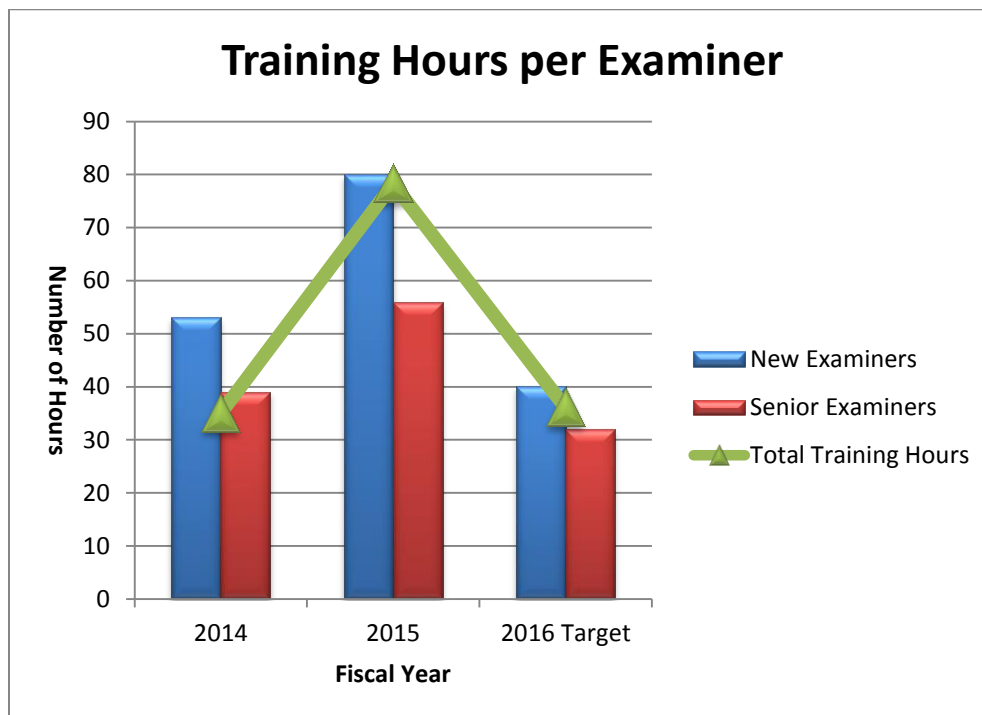
## Key Result

### SERVICES/PRODUCTS/ACTIVITIES

**Name:** Examinations

**Description:** Examiners spend many hours in training each year as part of their duty to remain current on risks in the industry, and to learn about new and emerging risks, as well as develop specialties in certain areas of loan supervision and examination.

**Why we are doing this:** We believe that examiner training is at the heart of a risk-focused supervision and examination program, and actively look for new training opportunities each year that will enrich each examiner's educational experience, and, in combination with their field experience, add to their ability to analyze risk and appreciate safety and soundness issues on a day-to-day basis.



**Performance Measure:** Examiner hours spent in training to increase ability to identify and supervise risk

**Performance Target:** 40 hours training per examiner per year

**What we're doing to achieve results:** The Division works to identify, measure, monitor, and control unacceptable levels of risk through a risk-focused supervision and examination program. Administrative action by the Division as needed, including Documents of Resolution, Letters of Understanding and Agreement, Cease and Desist Orders, and additional supervisory contact with a credit union, works to manage the risk presented by credit union operations. The training experienced by examiners must support this risk-focused supervision and examination, which begins in an examiner's first year and continues with longer and shorter classes, and even webinars on hot topics, throughout the examiner's career.

**What was achieved:** Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members. Our examiners must be adequately trained to operate in today's market.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including supervision and examination of state-chartered credit unions, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

## Key Result

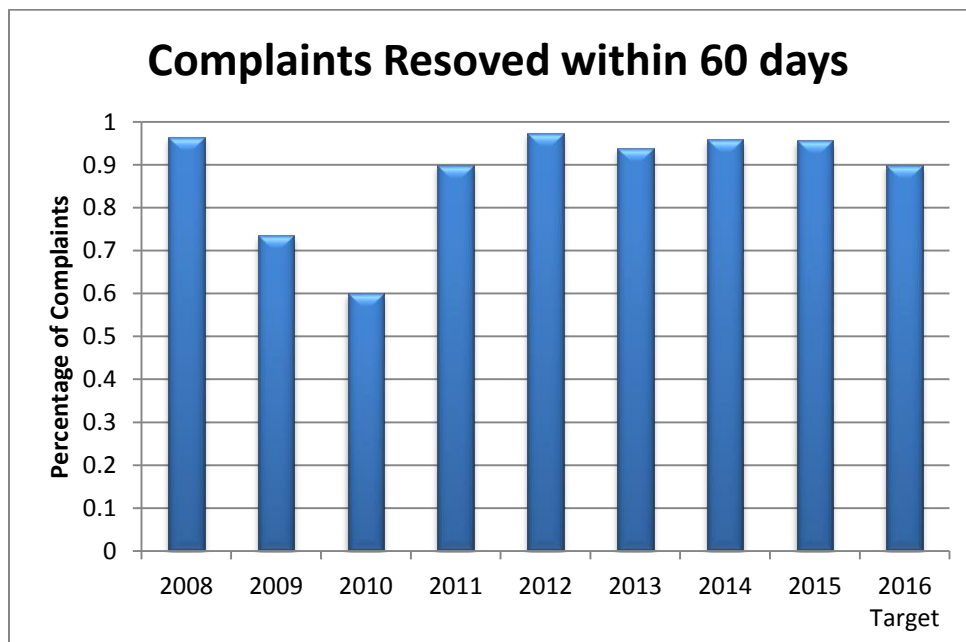
### SERVICES/ PRODUCTS/ACTIVITIES

**Name:** Consumer Protection

**Description:** Iowa Code §533.501(3) provides for a process for resolving consumer complaints filed regarding credit union activity. Our goal is to resolve the majority of complaints within 60 days of receipt.

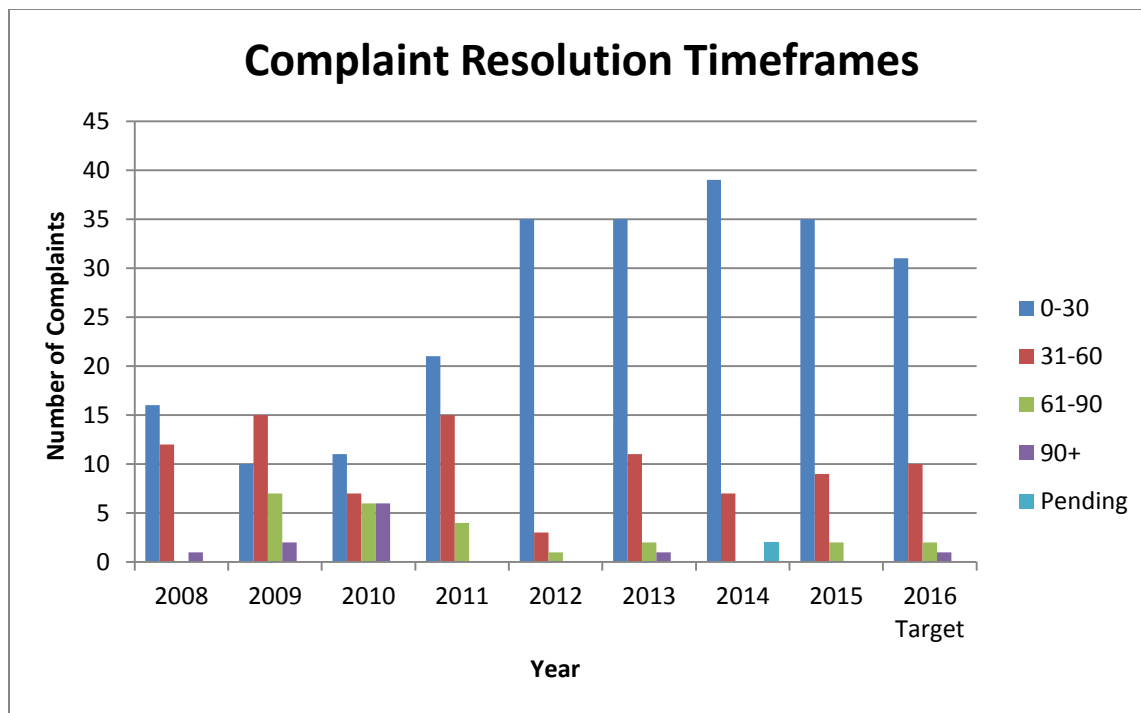
**Why we are doing this:** To improve communication and accessibility to information, the Division aims to enhance external and internal communication in areas of administration and legislation. Prompt and timely resolution to member complaints helps to provide effective administration and execution of the laws relating to credit unions.

**What we're doing to achieve results:** The Division has expanded the complaint resolution process, evaluating new complaints for legal issues that may require additional research. When appropriate, responses sent to consumers often explain in layman's terms the effect of complex federal and state laws and regulations on the specific complaint, as well as an analysis of a consumer's account activity. In certain cases, guidance may also be provided to a specific credit union regarding best practices and legal compliance.



**Performance Measure:** Complaints resolution times

**Performance Target:** 90% within 60 days



[ In Days]

**What was achieved:** Complaints are typically resolved within 30 days unless an extended investigation is necessary. While most complaints are resolved within the 60 day window, some complaints are complicated and require extended investigation and/or additional communication and correspondence with the parties involved or other state agencies.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including the complaint resolution process, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

## Key Result

### SERVICES/ PRODUCTS/ACTIVITIES

**Name:** Consumer Protection

**Description:** Issue regulatory guidance

**Why we are doing this:** The Division issues regulatory guidance to credit unions and the public regarding how certain legal issues will be viewed by the Division.

**What we are doing to achieve results:** Issues chosen as the subject for regulatory guidance are usually topics with widespread interest, immediate concern, or even a novel but important issue.

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**Performance Measure:** 2 per year

**Performance Target:** 100%

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**What was achieved:** Guidance was issued on Charitable Donation Accounts, that will allow credit unions another vehicle for charitable giving.

**Data Sources:** [https://creditunions.iowa.gov/iacudiv/public/laws\\_regs/int\\_bulletins.asp](https://creditunions.iowa.gov/iacudiv/public/laws_regs/int_bulletins.asp)

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including annual audits, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.



## CREDIT UNION DIVISION - PERFORMANCE PLAN RESULTS FY 2014

<b>Name of Agency:</b> Department of Commerce – Credit Union Division			
<b>Agency Mission:</b> To safeguard the interests of credit union depositors and stakeholders through the effective administration and execution of the laws relating to credit unions.			
<b>Core Function:</b> Regulation and Compliance			
Performance Measure (Outcome)	Performance Target	Performance Actual	Performance Comments & Analysis
1. Percent of credit unions in safe and sound status	100%	99%	<b>What Occurred:</b> Iowa credit unions continue to operate in safe and sound condition.  <b>Data Source:</b> Credit Union Division Examination Reporting System
<b>Service, Product or Activity:</b> Examinations			
Performance Measure	Performance Target	Performance Actual	Performance Comments & Analysis
1. Percent of credit unions examined annually	90%	90%	<b>What Occurred:</b> Examinations met target, and exceeded statutory requirements.  <b>Data Source:</b> Credit Union Division Examination Reporting System
2. Examiner hours spent in training to increase ability to identify and supervise risk	40 hours/examiner	80 hours/ new examiners; 58 hours/senior examiners	<b>What Occurred:</b> Credit union examiners are being trained in specialized financial areas of knowledge.  <b>Data Source:</b> Credit Union Division Examination Reporting System
<b>Core Function:</b> Consumer Protection			
Performance Measure	Performance Target	Performance Actual	Performance Comments & Analysis
1. Complaints resolved within 60 days of receipt	90%	95%	<b>What Occurred:</b> The majority of complaints were resolved within 30 days, and the majority of the remainder within the 60-day target timeframe.  <b>Data Source:</b> Credit Union Division Examination Reporting System
2. Issue regulatory guidance	2/year	100%	<b>What Occurred:</b> Issued regulatory guidance to credit unions.  <b>Data Source:</b> Credit Union Division

## **RESOURCE REALLOCATIONS**

During FY 2014, after experiencing some difficulty with the quality of the pool of applicants for entry level positions, the Division received approval from the Department of Administrative Services and the Department of Management for an Advanced Hiring Rate for a two-year period. This affected the Division in FY 2015 by improving the quality of applicants and. new hires.

## **DIVISION CONTACTS**

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